HOUSING MARKET OUTLOOK
Kingston CMA

CANADA MORTGAGE AND HOUSING CORPORATION

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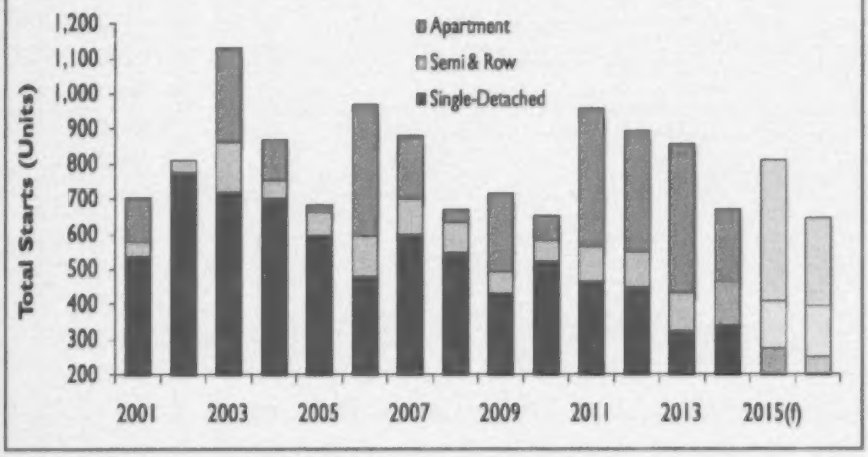
Highlights

- Kingston's existing home sales will remain steady in 2015 compared to last year.
- Kingston's existing home average price to rise modestly. This growth rate reflects an expected continuation of balanced market conditions.
- Total housing starts will be substantially higher than the number posted in 2014. This is mainly due to more apartment starts.

Figure 1

Kingston's Total Housing Starts to Rebound



Source: CMHC (Starts Survey); f = CMHC Forecast

The forecasts and historical data included in this document reflect information available as of April 20, 2015.

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New Home Market

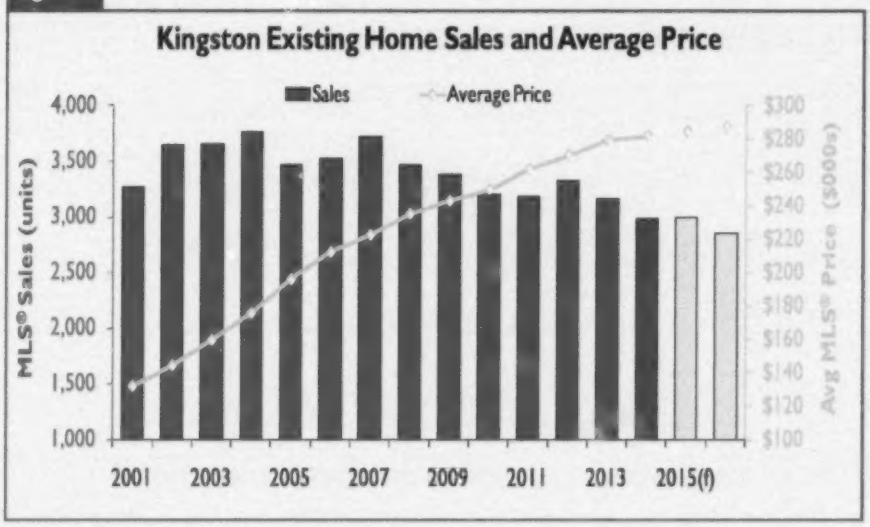
Kingston's total housing starts this year will come in well above last year at 810 units. Overall, a..y weather related weakness experienced in the first quarter should lead to a roughly equivalent bounce back in the second quarter. On an annual level, total starts will be higher as the result of a greater number of apartment and row starts, which will be marginally offset by decreases in starts of semi and single-detached homes. 2015 will see a rebound in starts when a number of large apartment projects begin.

In 2015, apartment starts will remain robust and continue to play an important role in the new housing market. Should all go as planned, anticipate north of 400 new apartment units this year. Anticipation of higher student enrolments in the years to come, from both international and domestic students is the rationale behind these developments, in particular the one on Princess Street. Expected time of completion for most of these units will be 2017 to coincide with the actual enrolment of these students. Finally, anticipate construction of apartments catering to local housing needs commencing along Highway 15.

Single-detached construction in Kingston has been responding to market signals like lower existing home sales and higher inventories by trending downwards in recent years. At the moment the number of single-detached homes under construction has dropped below the ten year average, notwithstanding, a significant increase in the second half of 2014. In 2015, the number of single-detached homes expected to be built is 275, which remains well below the ten year average. Land constraints in the City of Kingston are putting upward pressure on costs, so it is anticipated that more single-detached homes will be built in the surrounding sub-markets going forward.

In recent years, row houses have begun to play an increasingly important role in Kingston's new home market, and have also seen increasing demand in the resale market. Higher single-detached prices and demographic changes will shift demand towards higher density

Figure 2



Source: CREA (MLS®); f = CMHC forecast
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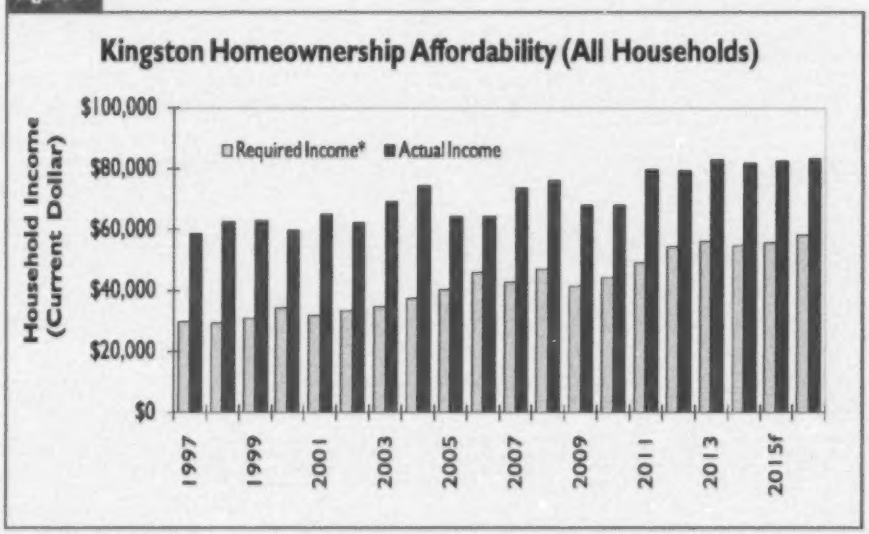
Figure 3



Source: CMHC, Statistics Canada, CREA. *Required income is mortgage carrying costs divided by 0.32 to reflect the usual 32 percent gross debt service ratio. Mortgage carrying costs are calculated on the average MLS® price, a 10 per cent down payment, the fixed five-year mortgage rate and the longest available amortization.

housing and we expect to see rows continue to increase in numbers. First-time home buyers, who are particularly conscious of costs, will continue to choose them as an entry point into the homeownership market.

Resale Market

So far this year the number of existing home sales has come in higher than expected. For the remainder of the year anticipate more of the same as total sales will finish the year at approximately 3,000 units and decrease modestly into next year. This was a pleasant surprise as sales have been trending down in recent years. As a result of mortgage rate decreases in response to an unanticipated move by the Bank of Canada, more buyers decided to enter the market, notwithstanding the harsh weather conditions of recent months.

Existing homes sales will remain robust because of an improving employment picture and increasing average wages in Kingston that will create positive momentum in housing demand for the most part of 2015. Sales will continue to get a boost from lower monthly mortgage carrying costs. An outlook for low mortgage rates, slow home price appreciation and growing incomes will help keep mortgage payments at affordable levels for the most part of 2015. Affordability will become an issue as we move into the next year and mortgage rates rise.

Recent employment changes suggest that there will be stronger first-time home buyer activity in the coming year. The slowdown in the overall employment growth for 2014 was partly offset by growth for the full-time positions of the 25-44 age group. This is a group that tends to be moving into home ownership for the first time. According to industry contacts this age group tends to purchase homes in the surrounding sub-markets of Kingston as they tend to be more price sensitive and less responsive about living in a specific location.

Market conditions in Kingston will remain balanced, but there is a high probability of elevated inventories. The sales-to-new listings ratio, which measures the balance between demand and supply, is expected to remain under 50 per cent as new listings move in tandem with sales this year. However, there is a chance that the number of new listings will continue last year's trend of outpacing sales, which could push the market into buyer's territory. From this it can be expected that price growth will be constrained as the market adjusts to increased supply. This moderate price growth will have the effect of keeping affordability relatively stable; the required income to buy the average home will grow in line with the actual average household income in Kingston.

The average resale price in 2015 will move above that of the previous year and will continue to grow modestly into next year as well. This outlook comes as a result of healthy leading indicators – increases in employment and wages, low mortgage rates and market balance – that tend to result in upward movement in prices. Given this, our expectation is that the average annual resale price will increase by one per cent in 2015 with more of the same for 2016.

Rental Market

As expected, last year saw marked growth in the number of newly completed rental units, as units that were started approximately three years ago were delivered to the market. Relatively higher rents and persistently low vacancy rates have encouraged investment in Kingston's rental stock. As of March this year, the number of rental units under construction (285) was still above the ten year average. Given recent market tightness, higher construction activity in this segment will come as a welcome sign.

Rental starts will stay robust because of the strong demand from seniors and students. In particular, we anticipate more rental units to be supplied to the market in 2015 as demand for newer rental units in Kingston remains strong. Vacancy rates remained the tightest among new buildings in 2014 as renters appreciated the new amenities that these buildings offer. Consequently, these newer units are able to fetch a higher rent, which will continue to support newer developments.

As a result of supply growth, the vacancy rate in Kingston is expected to remain stable over the next two years. The vacancy rate is forecast to be 2.0 per cent for 2015 with more of the same for the following year. However, for newer and well managed units the vacancy rate will be much lower. Moreover, the average two-bedroom rent will continue to grow slightly faster than inflation this year and the next.

Economy

Kingston's employment numbers will grow modestly in 2015 and 2016. Provincial and federal governments continue to constrain costs, which will keep a lid on employment growth as related to the public sector. However, Kingston's other industries will benefit from a lower Canadian dollar and low funding costs for investment. They may continue to expand, and move in step

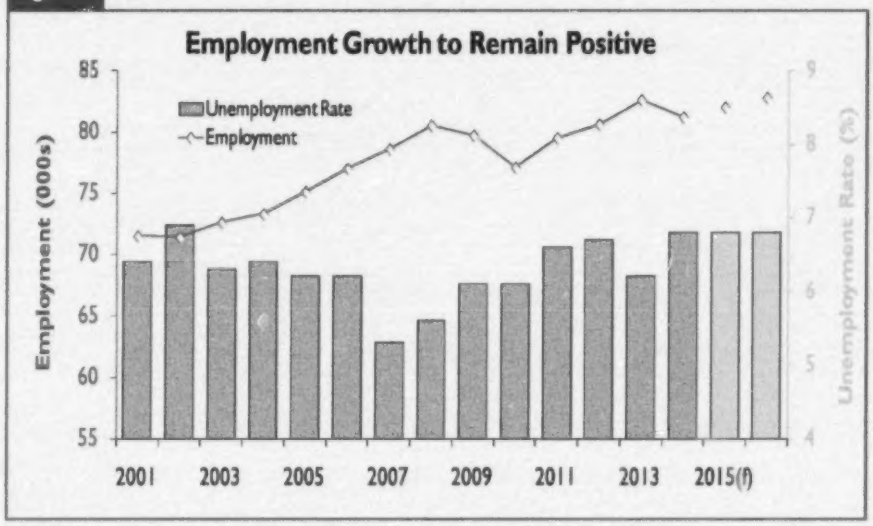
with improving economic conditions in Ontario. Stable employment growth in the next two years will leave the unemployment rate relatively unchanged.

The Kingston area will gain from stronger growth in certain sectors, such as transportation, logistics and tourism. As the U.S. economy improves, anticipate some positive spill over effects leading to increased growth in Ontario's economy, and in turn Kingston's economy. Adding to this is the sizable depreciation in the Canadian dollar that will increase the profitability of export operations, thus creating more attractive investment opportunities.

The outlook for the construction sector remains positive in Kingston. On top of the higher levels of multi-unit construction activity, large infrastructure projects will provide a boost to economic growth over the next two years. In particular, the strong rebound in construction of new apartment units expected to last until 2017 will impact employment in addition to the Providence Care Hospital which at its peak will require close to 350 workers. As well, projects like the reconstruction of Princess Street, phase three, will also provide employment support through 2016. Key for future developments remain the potential conversion lands within the urban areas which will provide further boost to the local economy.

In the next two years, net migration into Kingston will remain positive, a consequence of employment growth and foreign students attending one of Kingston post secondary institutions. Kingston also remains a popular destination for retirees looking for a modest urban lifestyle at lower cost than in bigger centers.

Figure 4



Source: Statistics Canada; f = CMHC Forecast

Mortgage Rate Outlook

Mortgage Rates Are Expected to Remain at or Close to Current Levels over the Forecast Horizon

Mortgage rates will continue to be supportive of housing demand. Consistent with the view of Canadian economic forecasters, CMHC expects interest rates to remain at or very close to current levels over the forecast horizon.

According to CMHC's base case scenario for 2015, the one-year mortgage rate is expected to be in the 2.30 to 3.50 per cent range, while the five-year rate is forecast to be within the 4.00 to 5.50 per cent range. For 2016, the one-year mortgage rate is expected to be in the 2.40 to 4.00 per cent range, while the five-year rate is forecast to be within the 4.20 to 6.20 per cent range.

Mortgage rates		
1 Year	Q1 2015	2.97
	Change from Q1 2014	-0.17
	2014	3.14
	2015 (F)	2.30 to 3.50
	2016 (F)	2.40 to 4.00
5 Year	Q1 2015	4.76
	Change from Q1 2014	-0.40
	2014	4.88
	2015 (F)	4.00 to 5.50
	2016 (F)	4.20 to 6.20

Source: Bank of Canada, CMHC Forecast
NOTE: Mortgage rate forecast is based on Q1 2015 data

Trends at a Glance

Key Factors and Their Effects on Housing Starts	
Mortgage Rates	Mortgage rates are expected to remain at or close to current levels over the forecast horizon.
Employment	Kingston's employment growth will be stable up in 2015, as public sector employment levels stabilize and the private sector continues to influence job growth.
Income	Kingston will see a steady increase in weekly average earnings. This will help keep mortgage carry costs manageable as rates are expected to remain low until early 2016 and support housing demand.
Net Migration	Positive net migration in the next two years will create population growth that stimulates demand for additional housing, in particular rental demand.
Resale Market	Market conditions in Kingston will remain balanced, but face moderate risks if recent growth in active listings continues.

Risks to the Outlook

This outlook is subject to some risks, including:

- While lower oil prices are a net positive globally, global growth in the first quarter has disappointed. There is risk of a period of protracted global economic weakness and slow, possibly negative, price growth.
- Growth in Emerging Market Economies (EMEs) could disappoint. In China, economic growth projections have been revised downwards closer to 7%.
- While a soft landing in the housing market remains the most likely scenario, near record-high house prices and debt levels relative to income leave households vulnerable to adverse shocks. A disorderly unwinding of household sector imbalances, should it materialize, could have sizable negative effects on other parts of the economy and on inflation.
- An upside risk to our outlook is a stronger than expected growth in the United States since it would benefit Canadian exporters and likely drive greater-than-expected housing demand.

Forecast Summary Kingston CMA Spring 2015							
	2012	2013	2014	2015(F)	% chg	2016(F)	% chg
New Home Market							
Starts:							
Single-Detached	449	325	338	275	-18.6	250	-9.1
Multiples	447	531	334	535	60.2	395	-26.2
Semi-Detached	12	8	26	20	-23.1	25	25.0
Row/Townhouse	91	103	102	115	12.7	120	4.3
Apartments	344	420	206	400	94.2	250	-37.5
Starts - Total	896	856	672	810	20.5	645	-20.4
Average Price ($):							
Single-Detached	296,178	299,493	314,391	318,450	1.3	321,250	0.9
Median Price ($):							
Single-Detached	289,900	294,000	300,000	303,000	1.0	306,000	1.0
New Housing Price Index (% chg) (Ont.)	4.1	2.1	1.7	n/a	-	n/a	-
Resale Market							
MLS® Sales	3,321	3,165	2,982	3,000	0.6	2,850	-5.0
MLS® New Listings	6,819	7,378	7,938	8,450	6.4	8,500	0.6
MLS® Average Price ($)	270,275	279,339	281,980	284,500	0.9	287,150	0.9
Rental Market							
October Vacancy Rate (%)	1.7	2.3	1.9	2.0	0.1	1.9	-0.1
Two-bedroom Average Rent (October) ($)	1,005	1,054	1,070	1,095	2.3	1,115	1.8
Economic Overview							
Mortgage Rate (1 year) (%)	3.17	3.08	3.14	2.30 to 3.50	-	2.40 to 4.00	-
Mortgage Rate (5 year) (%)	5.27	5.24	4.88	4.00 to 5.50	-	4.20 to 6.20	-
Annual Employment Level	80,600	82,600	81,400	82,000	0.7	82,800	1.0
Employment Growth (%)	1.6	2.5	-1.5	0.7	-	1.0	-
Unemployment rate (%)	6.7	6.3	6.8	6.8	-	6.8	-
Net Migration [1]	1,231	987	1,042	1,052	1.0	1,063	1.0

MLS® is a registered trademark of the Canadian Real Estate Association (CREA).

Source: CMHC (Starts and Completions Survey, Market Absorption Survey), adapted from Statistics Canada (CANSIM), CREA, Statistics Canada (CANSIM)
NOTE: Rental universe = Privately initiated rental apartment structures of three units and over

DEFINITIONS AND METHODOLOGY

New Home Market

Historical home starts numbers are collected through CMHC's monthly Starts and Completions Survey. Building permits are used to determine construction sites and visits confirm construction stages. A start is defined as the beginning of construction on a building, usually when the concrete has been poured for the whole of the structure's footing, or an equivalent stage where a basement will not be part of the structure.

Single-Detached Start:
The start of a building containing only one dwelling unit, which is completely separated on all sides from any other dwelling or structure.

Semi-Detached Start:
The start of each of the dwellings in a building containing two dwellings located side-by-side, adjoining no other structure and separated by a common or party wall extending from ground to roof.

Row (or Townhouse) Start:
Refers to the commencement of construction on a dwelling unit in a row of three or more attached dwellings separated by a common or party wall extending from ground to roof.

Apartment and other Starts:
Refers to the commencement of construction on all dwellings other than those described above, including structures commonly known as stacked townhouses, duplexes, triplexes, double duplexes and row duplexes.

Average and Median Single Detached Home Prices:
Are estimated using CMHC's Market Absorption Survey, which collects home prices at absorption and measures the rate at which units are sold or rented after they are completed. Dwellings are enumerated each month after a structure is completed until full absorption occurs. The term "absorbed" means that a housing unit is no longer on the market as it has been sold or rented.

New Home Price Indexes:
Changes in the New Home Price Indexes are estimated using annual averages of Statistics Canada's monthly values for New Housing Price Indexes (NHPI).

Resale Market

Historical resale market data in the summary tables of the Housing Market Outlook Reports refers to residential transactions through the Multiple Listings Services (MLS®) as reported by The Canadian Real Estate Association (CREA). In Quebec, this data is obtained by the Centris® listing system via the Quebec Federation of Real Estate Boards.

MLS® (Centris® in the province of Quebec) Sales:
Refers to the total number of sales made through the Multiple Listings Services in a particular year.

MLS® (Centris® in the province of Quebec) Average Price:
Refers to the average annual price of residential transactions through the Multiple Listings Services.

Rental Market

Rental Market vacancy rates and two bedroom rents information is from Canada Mortgage and Housing Corporation's (CMHC's) October Rental Market Survey (RMS). Conducted on a sample basis in all urban areas with populations of 10,000 and more, the RMS targets privately initiated structures with at least three rental units. which. have been on the market for at least three months. The survey obtains information from owners, managers, or building superintendents through a combination of telephone interviews and site visits.

Vacancy Rate:
The vacancy rate refers to the average vacancy rate of all apartment bedroom types. A unit is considered vacant if, at the time of the survey, it is physically unoccupied and available for immediate rental.

Two Bedroom Rent:
The rent refers to the average of the actual amount tenants pay for two bedroom apartment units. No adjustments are made for the inclusion or exclusion of amenities and services such as heat, hydro, parking, and hot water.

Economic Overview

Labour Force variables include the Annual Employment Level, Employment Growth, Unemployment Rate. Source: Statistics Canada's Labour Force Survey.

Net Migration:
Sum of net interprovincial (between provinces), net intra-provincial (within provinces), net international (immigration less emigration), returning Canadians and temporary (non-permanent) residents as provided to the CANSIM database by Statistics Canada's Demography Division. Sources of inter-provincial and intra-provincial migration data include a comparison of addresses from individual income tax returns for two consecutive years from Canada Revenue Agency (CRA) taxation records. The migration estimates are modelled, with the tax file results weighted to represent the whole population.

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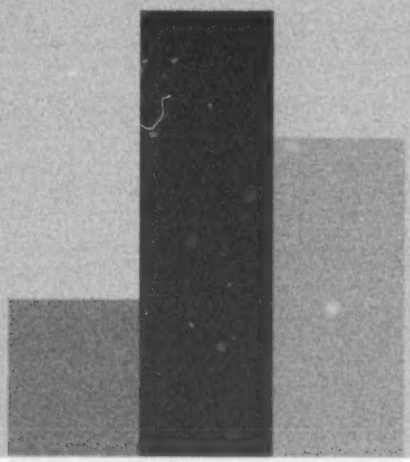

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